

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Marquette County Road Commission	County Marquette
Fiscal Year End 9/30/06	Opinion Date 2/23/07	Date Audit Report Submitted to State 3-19-07	

We affirm that:

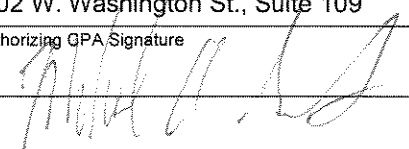
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☐ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	NO COMMENTS	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman, & Company, PLC		Telephone Number 906-225-1166	
Street Address 102 W. Washington St., Suite 109		City Marquette	State MI
Zip 49855			
Authorizing CPA Signature 	Printed Name Michael Alan Grentz	License Number 1101027988	

**Marquette County Road Commission
Component Unit Financial Statements
For the Year Ended September 30, 2006**

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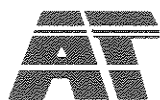
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ANDERSON, TACKMAN & COMPANY, P.L.C.

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INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Marquette County Road Commission
1610 North 2nd Street
Ishpeming, Michigan 49849

We have audited the accompanying financial statements of the governmental activities and Major Fund of the Marquette County Road Commission, a component unit of the County of Marquette, Michigan, as of and for the year ended September 30, 2006, which collectively comprise the Marquette County Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Marquette County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and Major Fund of the Marquette County Road Commission as of September 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report to management dated February 23, 2007 on our consideration of the Marquette County Road Commission's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, and budgetary comparison information on pages 5 through 11 and 29 through 30, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Honorable Chairman and Members
of the Board of Commissioners
County of Marquette, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marquette County Road Commission's basic financial statements. The schedules listed as supplementary information in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Marquette County Road Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

February 23, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Our discussion and analysis of Marquette County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended September 30, 2006. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services are financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts--management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to ensure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Commission as a Whole

Government-Wide Statements

The statement of net assets and the statement of activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The statement of net assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the county's property tax base, the conditions of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

Fund Financial Statements

The Road Commission currently has only one fund, the general operations fund. All of the Road Commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. Our analysis of the Road Commission's major fund begins on page 14. The fund financial statements begin on page 14 and provide detailed information about the major fund.

Governmental Funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased approximately 3%, or \$1,142,862, from \$45,536,131 to \$46,678,993 for the year ended September 30, 2006. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorized the government to assess, levy, charge or otherwise mandate payment of resources and include a legally enforceable requirement

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

that those resources be used only for the specific purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

The restricted net assets increased by \$342,076 during 2006.

The general fund operations resulted in a net increase of \$331,585. The following adjustments were made in order to calculate the change in net assets of \$1,142,862:

- Decrease expenditures by net capital outlay expenditures of \$531,234
- Decrease expenditures by the change in vacation and sick leave balances of \$10,491
- Decrease expenditures by debt principal payments made of \$269,552

Net assets as of years ended September 30, 2006 and 2005 are as follows:

	2006	2005
Current and Other Assets	\$6,372,081	\$6,322,551
Capital Assets	42,579,288	42,048,054
Total Assets	48,951,369	48,370,605
Long-Term Debt Outstanding	1,493,096	1,773,139
Other Liabilities	779,280	1,061,335
Total Liabilities	2,272,376	2,834,474
Net Assets		
Invested in Capital Assets		
Net of Debt	41,579,288	40,778,502
Restricted	5,099,705	4,757,629
Total Net Assets	\$46,678,993	\$45,536,131

Changes in Net Assets

A summary of changes in net assets for the years ended September 30, 2006 and 2005 is as follows:

	Governmental Activities	
	2006	2005
Program Revenue		
License and Permits	\$18,210	\$18,180
Federal Grants	1,333,911	588,848
State Grants	6,194,849	6,529,711
Contributions From Local Units	481,569	732,598
Charges for Services	2,068,922	2,277,022
Investment Earnings	224,080	112,041
Reimbursements	61,828	185,793
Total Revenue	10,383,369	10,444,193

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

	2006	2005
Expenses		
Public Works	\$9,191,024	\$9,817,050
Interest Expense	49,483	62,307
Total Expenses	9,240,507	9,879,357
Increase in Net Assets	1,142,862	564,836
Beginning Net Assets	45,536,131	6,145,109
Prior Period Adjustments	-	38,826,186
Ending Net Assets	\$46,678,993	\$45,536,131

The Road Commission's Fund

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended September 30, 2006, the fund balance of the general operations fund increased \$331,585 as compared to a decrease of \$714,221 in the fund balance for the year ended September 30, 2005. Total operating revenues were \$10,385,653 a decrease of \$58,540 as compared to last year. Total expenditures were \$10,054,068, which is a decrease of \$1,104,346 as compared to last year.

The decrease in expenditures was mainly the result of two factors. First, an equipment lease was paid off in March 2006, resulting in lower debt service expenditures. Second, very minimal equipment purchases were made in 2006, whereas in 2005 over \$1 million was spent on equipment purchases.

A summary of changes in the Operating Fund is as follows:

	9/30/06 Operating Fund	9/30/05 Operating Fund	Favorable (Unfavorable) Variance	Variance Percent
Revenues				
License & Permits	\$18,210	\$18,180	\$30	1%
Federal Grants	1,333,911	588,848	745,063	127
State Grants	6,194,849	6,529,711	(334,862)	(5)
Contributions From Local Units	481,569	732,598	(251,029)	(34)
Charges for Services	2,068,922	2,277,022	(208,100)	(9)
Interest and Rents	224,080	112,041	112,039	100
Other Revenue	64,112	185,793	(121,681)	(65)
Total Revenues	10,385,653	10,444,193	(58,540)	(1)
Expenditures				
Public Works	\$10,160,037	\$9,799,613	\$360,424	4%
Net Capital Outlay	(425,004)	671,304	(1,096,308)	1.63
Debt Service	319,035	687,497	(368,462)	54
Total Expenditures	10,054,068	11,158,414	1,104,346	1

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

	9/30/06 Operating Fund	9/30/05 Operating Fund	Favorable (Unfavorable) Variance	Variance Percent
Excess of Expenditures Over (Under) Revenues	\$331,585	\$(714,221)	\$1,045,806	146%
Fund Balance—Beginning	5,261,216	5,975,437	(714,221)	(12)
Fund Balance--Ending	\$5,592,801	\$5,261,216	\$331,585	6%

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget were compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2006 was \$2,450,079, lower than the original budget. The actual revenue recognized during 2006 was less than the final amended budget by \$744,145.

The final amended expenditure budget for 2006 was \$2,450,079 lower than the original budget. The actual expenditures recognized during 2006 were less than the final amended budget by \$1,310,788.

Lower than expected expenses and revenues was the result of several projects being postponed to 2007. The original budget included approximately \$1.6 million in state and federal grant revenue, along with \$1.8 million in expenses for projects on Co. Rd. 545 and Co. Rd. 550, along with bridges on Co. Rd. BI and Co. Rd. EAA, construction for which all of these will begin in 2007.

Capital Asset and Debt Administration

Capital Assets

As of September 30, 2006, the Road Commission had invested \$42,579,288 in capital assets. This amount represents a net increase (including additions and deductions) of \$531,234 or 21% as follows:

	2006	2005
Capital Assets Not Being Depreciated		
Land	\$272,377	\$272,377
Land – Infrastructure	21,017,850	20,211,088
Construction in Progress	-	-
Subtotal	21,290,227	20,483,465

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

	2006	2005
Capital Assets Being Depreciated		
Depletable Assets	\$161,686	\$161,686
Buildings	2,103,724	2,066,850
Equipment	11,514,323	12,341,407
Yard and Storage	697,361	695,663
Infrastructure	32,972,155	31,332,849
Subtotal	47,449,249	46,598,455
Total Capital Assets	68,739,476	67,081,920
Total Accumulated Depreciation	(26,160,188)	(25,033,866)
Total Net Capital Assets	<u>\$42,579,288</u>	<u>\$42,048,054</u>

This year's capital asset changes included the following:

Reconstruction of Bridges	\$1,360,426
Various Resurfacing Projects and Related Land/Right-of-Way	1,085,642
Land	-
Building	36,874
Trucks/Equipment	123,212
Yard and Storage	1,698
Total Additions	<u>\$2,607,852</u>
Depreciation Expense – Infrastructure	\$1,464,578
Depreciation Expense – All other Capital Assets	609,756
Total Depreciation Expense	<u>\$2,074,334</u>
Loss on Disposal of Assets	<u>\$2,284</u>
NET CHANGE IN CAPITAL ASSETS	<u>\$531,234</u>

Debt

At the year end, the Road Commission had \$1,000,000 in bonds and installment purchase agreements versus \$1,269,552 last year, a decrease of \$269,522 as shown below:

	2006	2005
Bonds Payable	\$ 1,000,000	\$ 1,400,000
Installment Purchase Agreements	-	494,742
Total	<u>\$1,000,000</u>	<u>\$1,894,742</u>

During 2006, there was no new debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note H to the financial statements.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2007 budget. One of the factors is the economy. The Road Commission derives approximately 55% of its revenues from the fuel tax collected. Using Michigan Department of Transportation projections, it is estimated that the Road Commission will roughly the same Michigan Transportation Fund revenues in 2007. The Road Commission received approximately 4% of its revenues from township contributions during 2006; this amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. During 2007, we expect to receive at least \$7,270,417 in federal and state aid for road and bridge projects, some of which was deferred from 2006.

The above items were considered when adopting the budget for 2007.

Budgeted expenditures for 2007 are \$17,585,256, and budgeted revenues are \$16,776,947. The 2007 budget assumes a use of fund equity of \$808,309 to make up for the shortfall in revenues. Preservation expenditures and the federal/state aid and township contributions associated with them are based on projects planned for the summer of 2007. Approximately \$300,000 is budgeted for equipment purchases. Regular maintenance expenditures, along with administrative and engineering expenditures are based on 2006 actual expenses, taking into account estimated labor and fringe benefit increases.

Contacting the Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Marquette County Road Commission's administrative offices at 1610 North Second Street, Ishpeming, Michigan 49849.

MARQUETTE COUNTY ROAD COMMISSION

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2006

ASSETS

Cash and Equivalents	\$ 3,334,219
Accounts Receivable:	
Michigan Transpiration Fund	888,324
State Trunkline Maintenance	387,328
State - Other	-
Due on County Road Agreements	616,997
Sundry Accounts	64,457
Inventories:	
Road Materials	708,759
Equipment, Parts and Materials	200,485
Prepaid Expenses	171,512
Capital Assets (Net of Accumulated Depreciation)	42,579,288
Total Assets	<u>48,951,369</u>

LIABILITIES

Current Liabilities:	
Accounts Payable	97,225
Due to State of Michigan	-
Accrued Liabilities	140,216
Advances From State	378,571
Deferred Revenue	
State EDF Forest Road Funds	163,268
Installment Purchase Agreements Payable - Due Within One Year	200,000
Non-Current Liabilities:	
Vested Employee Benefits Payable	493,096
Installment Purchase Agreements Payable - Due in More Than One Year	800,000
Total Liabilities	<u>2,272,376</u>

NET ASSETS

Invested in Capital Assets - Net of Related Debt	41,579,288
Restricted for County Road	<u>5,099,705</u>
Total Net Assets	<u>\$ 46,678,993</u>

See accompanying notes to the financial statements.

MARQUETTE COUNTY ROAD COMMISSION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2006

Expenditures	
Primary Road Routine and Preventive Maintenance	\$ 2,214,303
Local Road Routine and Preventive Maintenance	2,549,989
State Trunkline Maintenance	2,014,613
Net Equipment Expense	549,426
Net Administrative Expense	353,188
Capital Outlay	22,968
Infrastructure Depreciation	1,464,578
Compensated Absences	(10,491)
Interest Expense	49,483
Other Expense	32,450
Total Program Expenses	<u>9,240,507</u>
Program Revenue	
Charges for Services	
Licenses and Permits	18,210
Charges for Services	2,068,922
Other Revenue	61,828
Operating Grants and Contributions	
Federal Sources	-
State Sources	5,717,618
Capital Grants and Contributions	
Federal Sources	1,333,911
State Sources	477,231
Contributions from Local Units	481,569
Total Program Revenues	<u>10,159,289</u>
Net Program Revenue	<u>918,782</u>
General Revenues	
Property Taxes	-
Interest and Rents	224,080
Transfers In	-
Total General Revenue and Transfer In	<u>224,080</u>
Change in Net Assets	<u>1,142,862</u>
Net Assets - Beginning of Year	6,709,945
Prior Period Adjustment	38,826,186
Net Assets - Beginning of Year	<u>45,536,131</u>
Net Assets - End of Year	<u>\$ 46,678,993</u>

See accompanying notes to the financial statements.

MARQUETTE COUNTY ROAD COMMISSION

BALANCE SHEET

SEPTEMBER 30, 2006

	Governmental Fund Type
	General Operating Fund
ASSETS	
Cash and Equivalents	\$ 3,334,219
Accounts Receivable:	
Michigan Transpiration Fund	888,324
State Trunkline Maintenance	387,328
State - Other	-
Due on County Road Agreements	616,997
Sundry Accounts	64,457
Inventories:	
Road Materials	708,759
Equipment, Parts and Materials	200,485
Prepaid Expenses	171,512
Total Assets	<u>\$ 6,372,081</u>
LIABILITIES AND FUND EQUITY	
Liabilities:	
Accounts Payable	\$ 97,225
Accrued Liabilities	140,216
Due to State of Michigan	-
Advances	378,571
Deferred Revenue	163,268
Total Liabilities	<u>779,280</u>
Fund Equities:	
Fund Balance - Unreserved and Undesignated	<u>5,592,801</u>
Total Fund Equities	<u>5,592,801</u>
Total Liabilities and Fund Equity	<u>\$ 6,372,081</u>

See accompanying notes to the financial statements.

MARQUETTE COUNTY ROAD COMMISSION

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

SEPTEMBER 30, 2006

Total Fund Balances for Governmental Funds \$ 5,592,801

*Amounts reported for governmental activities in the statement
of net assets are different because:*

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds.

Cost of capital assets	68,739,476	
Accumulated depreciation	<u>(26,160,188)</u>	
		42,579,288

Long-term liabilities are not due and payable in the current period and are
not reported in the funds. Long-term liabilities at year-end consist of:

Bond & Notes Payable - Current	(200,000)	
Bond & Notes Payable - Non-Current	(800,000)	
Compensated Absences	<u>(493,096)</u>	
		(1,493,096)

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 46,678,993</u>
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See accompanying notes to the financial statements.

MARQUETTE COUNTY ROAD COMMISSION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED SEPTEMBER 30, 2006

	General Operating Fund
Revenues:	
Licenses and Permits	\$ 18,210
Federal Sources	1,333,911
State Sources	6,194,849
Contributions from Local Units	481,569
Charges for Services	2,068,922
Interest and Rents	224,080
Other Revenue	64,112
Total Revenues	<u>10,385,653</u>
Expenditures	
Public Works	10,160,037
Capital Outlay	(425,004)
Debt Service	319,035
Total Expenditures	<u>10,054,068</u>
Excess of Revenues Over (Under) Expenditures	<u>331,585</u>
Other Financing Sources	
Note Proceeds	-
Total Other Financing Sources	<u>-</u>
Excess (Deficit) of Revenues and Other financing Sources Over (Under) Expenditures	<u>331,585</u>
Fund Balance - Beginning of Year	5,261,216
Fund Balance - End of Year	<u><u>\$ 5,592,801</u></u>

See accompanying notes to the financial statements.

MARQUETTE COUNTY ROAD COMMISSION

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED SEPTEMBER 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$	331,585
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*Amounts reported for governmental activities in the statement
of activities are different because:*

Governmental funds report capital outlays and infrastructure as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense - building and equipment	(609,756)	
Depreciation expense - infrastructure	(1,464,578)	
Capital outlays - building and equipment	161,784	
Capital outlays - infrastructure - primary	1,067,851	
Capital outlays - infrastructure - local	1,378,217	
Gain (loss) on disposal	<u>(2,284)</u>	531,234

Repayment of bond/note principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net assets.		269,552
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Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		<u>10,491</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>1,142,862</u>
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See accompanying notes to the financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of Marquette County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Marquette County Road Commission.

(1) Reporting Entity

The Marquette County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Marquette County Road Commission, a discretely presented component unit of Marquette County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

(2) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Marquette County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expense is those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements. The Road Commission has one major fund, the Operating Fund.

(3) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

(4) Assets, Liabilities, and Net Assets or Equity

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Deposits are stated at cost. Investments are stated at fair value.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Marquette County Road Commission as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Marquette County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure—Roads	8 to 30 years
Infrastructure—Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund Statement of Net Assets.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Compensated Absences (Vacation and Sick Leave)

It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public hearing. The budget is amended as necessary during the year, and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

NOTE C – CASH DEPOSITS AND INVESTMENTS:

The cash and investments are classified into the following categories:

Cash – Held with Road Commission – Bank Deposits	\$44,244
Cash – Held with County Treasurer – Bank Deposits	3,289,975
Total Cash	<u>\$3,334,219</u>

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States, United States governmental or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivision which are treated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

NOTE C – CASH DEPOSITS AND INVESTMENTS (Continued):

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 20 of 1943.

Interest Rate Risk

The Road Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to Fair Value losses arising from increasing interest rates.

Credit Risk

State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Road Commission has no investment policy that would further limit its investment choices.

Custodial Investment Credit Risk

Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. The Road Commission invests with the County of Marquette and would receive its proportional share of holdings.

Custodial Deposit Credit Risk

Custodial deposit credit risk is the risk that in the event of a bank failure, the Road Commission deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. The carrying amounts of the Road Commission's deposits with financial institutions were \$44,244 and the bank balance was \$375,689. The bank balance is categorized as follows:

Amount insured by FDIC	\$150,000
Amount uninsured and uncollateralized	225,689
	<u>\$375,689</u>

The \$3,289,975 other cash balance is pooled with the County of Marquette funds and would receive a proportionate share of insurance.

NOTE D – DEFERRED COMPENSATION PLAN:

The Marquette County Road Commission offers all its employees a deferred compensation plan created accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are held in trust, (custodial account or annuity contract) as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Marquette County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and

NOTE D – DEFERRED COMPENSATION PLAN (Continued):

all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Marquette County Road Commission's financial statements.

NOTE E – CAPITAL ASSETS:

Capital asset activity of the Marquette County Road Commission for the current year was as follows:

	Beginning Balances 10/01/05	Additions	Deletions	Ending Balances 9/30/06
Capital Assets Not Being Depreciated:				
Land	\$272,377	\$ -	\$ -	\$272,377
Land Improvements – Infrastructure	20,211,088	806,762	-	21,017,850
Construction in Progress	-	-	-	-
Subtotal	20,483,465	806,762	-	21,290,227
Capital Assets Being Depreciated:				
Depletable Assets	161,686	-	-	161,686
Buildings	2,066,850	36,874	-	2,103,724
Road Equipment	11,906,545	95,011	(947,346)	11,054,210
Shop Equipment	135,248	16,062	-	151,310
Office Equipment	192,144	5,589	-	197,733
Engineers' Equipment	70,495	6,550	(2,950)	74,095
Yard and Storage	695,663	1,698	-	697,361
Vehicles	36,975	-	-	36,975
Infrastructure—Bridges	4,705,492	278,880	-	4,984,372
Infrastructure—Roads	26,627,357	1,360,426	-	27,987,783
Subtotal	46,598,455	1,801,090	(950,296)	47,449,249
Less Accumulated Depreciation:				
Depletable Assets	(161,686)	-	-	(161,686)
Buildings	(1,179,036)	(46,748)	-	(1,225,784)
Road Equipment	(10,439,832)	(496,782)	945,062	(9,991,552)
Shop Equipment	(102,576)	(10,480)	-	(113,056)
Office Equipment	(171,194)	(7,956)	-	(179,150)
Engineers' Equipment	(63,017)	(2,413)	2,950	(62,480)
Yard and Storage	(161,821)	(45,353)	-	(207,174)
Vehicles	(36,951)	(24)	-	(36,975)
Infrastructure—Bridges	(1,286,614)	(102,262)	-	(1,388,876)
Infrastructure—Roads	(11,431,139)	(1,362,316)	-	(12,793,455)
Subtotal	(25,033,866)	(2,074,334)	948,012	(26,160,188)
Net Capital Assets Being Depreciated	21,564,589	(273,244)	(2,284)	21,289,061
Total Net Capital Assets	\$42,048,054	\$533,518	\$ (2,284)	\$42,579,288

NOTE E – CAPITAL ASSETS (Continued):

Depreciation expense was charged to programs of the Marquette County Road Commission as follows:

Infrastructure – Bridges	\$102,262
Infrastructure – Roads	1,362,316
Equipment	496,782
Administrative	10,369
Other	102,605
Total Depreciation Expense	<u>\$2,074,334</u>

NOTE F – EMPLOYEE RETIREMENT AND BENEFIT:Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Marquette County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all full-time employees of the Road Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: Gabriel, Roeder, Smith & Company, One Town Square, Suite 800, Southfield, Michigan, 48076.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the Marquette County Road Commission's competitive bargaining units and requires any contribution from the employees of zero to 10% of gross wages for the County Road Commission.

Annual Pension Costs – For year ended 2006, Marquette County Road Commission's annual pension cost of \$672,864 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age normal funding method. Significant actuarial assumptions used include: (1) an 8% investment rate of return; (2) projected salary increases of 4.5% per year; and (3) 4.5% per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31 is as follows:

	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2003	\$547,698	100%	-
2004	625,119	100%	-
2005	857,852	100%	-

NOTE F – EMPLOYEE RETIREMENT AND BENEFIT (Continued):

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial Value of Assets	\$8,691,001	\$9,113,598	\$9,732,041
Actuarial Accrued Liability (AAL)	\$15,508,649	\$17,146,651	\$18,121,910
Unfunded AAL (UAAL)	\$6,817,648	\$8,033,053	\$8,389,869
Funded Ratio	56%	53%	54%
Covered Payroll	\$2,503,371	\$2,671,786	\$2,728,736
UAAL as a Percentage of Covered Payroll	272%	301%	307%

NOTE G – FEDERAL GRANTS:

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended September 30, 2006, the Federal aid received and expended by the Road Commission was \$1,114,894 for contracted projects and \$219,017 negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the road commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended \$500,000 or more for negotiated projects which will be included with the Marquette County's Single Audit.

NOTE H – GENERAL LONG-TERM DEBT:

The general long-term debt of the Road Commission may be summarized as follows:

	<u>Balance October 1, 2005</u>	<u>Additions (Reductions)</u>	<u>Balance September 30, 2006</u>	<u>Due Within One Year</u>
Volvo Note Payable	\$69,552	\$(69,552)	\$-	\$-
Bond	1,200,000	(200,000)	1,000,000	200,000
Vested Employee Benefits:				
Vacation Benefits	80,303	(2,360)	77,943	-
Sick Leave Benefits	423,284	(8,131)	415,153	-
TOTAL	<u>\$1,773,139</u>	<u>\$(280,043)</u>	<u>\$1,493,096</u>	<u>\$200,000</u>

On June 7, 2001, the Marquette County Road Commission issued \$2,000,000 Michigan Transportation Fund Revenue Note of 2001 "Bond" for the purpose of equipment purchase and paying off of the debt related to equipment purchases in the past. The bond's interest is due semi-annually on February 7 and August 7 at a rate of 4% with principal due August 7 of each year.

<u>Bond</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$200,000	\$43,800	\$243,800
2008	200,000	35,300	235,300
2009	200,000	26,800	226,800
2010	200,000	18,000	218,000
2011	200,000	9,000	209,000
Total	<u>\$1,000,000</u>	<u>\$132,900</u>	<u>\$1,132,900</u>

NOTE H – GENERAL LONG-TERM DEBT (Continued):

Vested Employee Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in the subsequent calendar year.

Sick Leave Benefit Policies

Road Commission employment policies provide that each regular employee shall earn sick leave with pay at the rate of 1 day, or 8 hours, for each completed month of employment. Sick leave may be accumulated without limit.

Upon retirement, death or discontinuance of employment for any reason, except for dismissal for disciplinary reasons, the employee shall be paid for 1,500 hours accumulated sick leave at the employee's prevailing rate of pay at the time of the termination of employment.

NOTE I – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION:

The Road Commission provides post-retirement health care benefits, in accordance with labor contracts and personnel policy, to all employees who retire from the Road Commission. Full premium of medical benefits for the retired employees only, between 60 and 65 years old are paid by the Road Commission. When the retired employee attains the age of 65 years, the employer's contribution shall end under the contracts. Currently, 50 retirees meet those eligibility requirements. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due. During the year, net expenditures of \$263,069 were recognized for post-retirement health care.

NOTE J – COMMITMENTS AND CONTINGENCIES

Grants – The Marquette County Road Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Marquette County Road Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Marquette County Road Commission at September 30, 2006.

Risk Management – The Marquette County Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Marquette County Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Marquette County Road Commission joined together with other Michigan Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Marquette County Road Commission pays an annual premium to the

NOTE J – COMMITMENTS AND CONTINGENCIES (Continued):

pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 for each insured event. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Marquette County Road Commission is unable to provide an estimate of the amounts of additional assessments.

NOTE K – PRIOR PERIOD EQUITY ADJUSTMENTS:

In September 2006, the Road Commission implemented the retroactive reporting for infrastructure assets. Accordingly, an adjustment was made during 2006 to increase previously reported net assets by \$38,826,186. The effect of the restatement on the changes of net assets of 2005 is not determinable.

Required Supplementary Information

Marquette County Road Commission
General Operating Fund
Statement of Revenues and Other Financing Sources
Budgetary Comparison Schedule
For the Year Ended September 30, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Licenses and Permits	\$ 15,000	\$ 15,000	\$ 18,210	\$ 3,210
Federal Aid				
Surface Transportation Program	4,863,936	1,500,000	481,621	(1,018,379)
Economic Development "D" Funds	-	-	675,647	675,647
Federal Critical Bridge	-	-	176,643	176,643
State Aid				
Michigan Transportation Fund:				
Engineering	5,356,500	5,356,500	10,000	(5,346,500)
Primary Road	-	-	3,008,838	3,008,838
Primary Urban Road	-	-	161,897	161,897
Local Road	-	-	2,001,436	2,001,436
Local Urban Road	-	-	106,373	106,373
Snow Removal	405,335	405,335	429,074	23,739
Economic Development Fund:				
Rural Primary "D" Funds	-	-	167,475	167,475
Forest Road "E" Funds	381,528	396,404	309,756	(86,648)
Contributions from Local Units				
Townships	550,000	653,461	466,069	(187,392)
Others	-	-	15,500	15,500
Charges for Service:				
Trunkline Maintenance	1,858,780	2,019,300	2,014,613	(4,687)
Salvage sales	-	-	5,493	5,493
Other	-	-	48,816	48,816
Interest and Rents	105,200	105,200	224,080	118,880
Other:				
Reimbursements	43,600	678,600	28,574	(650,026)
Gain on Equipment Disposal(s)	-	-	35,538	35,538
Total Revenue and Other Financing Sources	<u>13,579,879</u>	<u>11,129,800</u>	<u>10,385,653</u>	<u>(744,145)</u>
Fund Balance - October 1, 2005	<u>5,261,216</u>	<u>5,261,216</u>		
Total Budget	<u>\$ 18,841,095</u>	<u>\$ 16,391,016</u>		

Marquette County Road Commission
General Operating Fund
Statement of Expenditures
Budgetary Comparison Schedule
For the Year Ended September 30, 2006

	Amended Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Primary Roads:				
Preservation	\$ 4,459,950	\$ 1,102,558	\$ 909,449	\$ 193,109
Maintenance	1,441,516	2,220,000	2,214,303	5,697
Local Roads:				
Preservation	2,196,686	1,181,073	1,116,173	64,900
Maintenance	2,698,150	2,550,000	2,549,989	11
Primary Roads Structures:				
Preservation	-	160,000	158,402	1,598
Local Roads Structures:				
Preservation	-	265,000	262,044	2,956
State Trunkline Maintenance	1,858,780	2,019,300	2,014,613	4,687
Equipment Expense - Net	373,249	671,821	549,426	122,395
Direct			1,905,782	
Indirect			1,072,836	
Operating			514,162	
Less: Equipment Rentals			(2,943,354)	
Administrative Expense - Net	379,320	407,820	353,188	54,632
Administrative Expense			474,280	
Engineering Expense			123,260	
Less: Overhead - State Trunkline			(244,352)	
Capital Outlay - Net	50,000	425,000	(425,004)	850,004
Capital Outlay			159,380	
Less: Depreciation Credits			(582,101)	
Less: Equipment Retirements			(2,283)	
Other - Cost of Sales	35,000	40,000	32,450	7,550
Debt Service				
Principal payment	272,286	272,286	269,552	2,734
Interest Expense	50,000	50,000	49,483	517
TOTAL EXPENDITURES	<u>13,814,937</u>	<u>11,364,858</u>	<u>\$ 10,054,068</u>	<u>\$ 1,310,788</u>
FUND BALANCE - End of Year	<u>5,026,158</u>	<u>5,026,158</u>		
Total Budget	<u>\$ 18,841,095</u>	<u>\$ 16,391,016</u>		

Other Supplemental Financial Information

Marquette County Road Commission
Analysis of Changes in Fund Balance
For the Year Ended September 30, 2006

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Revenues	\$ 4,658,880	\$ 3,356,497	\$ 2,370,276	\$ 10,385,653
Expenditures	<u>3,556,107</u>	<u>4,381,271</u>	<u>2,116,690</u>	<u>10,054,068</u>
Excess of Revenues Over (Under) Expenditures	<u>1,102,773</u>	<u>(1,024,774)</u>	<u>253,586</u>	<u>331,585</u>
Other Financing Sources (Uses)				
Optional Transfers In (Out)	(950,000)	950,000	-	-
Interfund Transfers In (Out)	<u>-</u>	<u>74,774</u>	<u>(74,774)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(950,000)</u>	<u>1,024,774</u>	<u>(74,774)</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>152,773</u>	<u>-</u>	<u>178,812</u>	<u>331,585</u>
Fund Balance - October 1	<u>1,367,823</u>	<u>-</u>	<u>3,893,393</u>	<u>5,261,216</u>
FUND BALANCE - SEPTEMBER 30	<u>\$ 1,520,596</u>	<u>\$ -</u>	<u>\$ 4,072,205</u>	<u>\$ 5,592,801</u>

Marquette County Road Commission

Analysis of Revenues

For the Year Ended September 30, 2006

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Licenses and Permits	\$ -	\$ -	\$ 18,210	\$ 18,210
Federal Aid				
Surface Transportation Program	481,621	-	-	481,621
Economic Development "D" Funds	675,647	-	-	675,647
Federal Critical Bridge	-	176,643	-	176,643
State Aid				
Michigan Transportation Fund:				
Engineering	5,000	5,000	-	10,000
Primary Road	3,008,838	-	-	3,008,838
Primary Urban Road	161,897	-	-	161,897
Local Road	-	2,001,436	-	2,001,436
Local Urban Road	-	106,373	-	106,373
Snow Removal	-	429,074	-	429,074
Economic Development Fund:				
Rural Primary "D" Funds	167,475	-	-	167,475
Forest Road "E" Funds	158,402	151,354	-	309,756
Contributions from Local Units				
Townships	-	466,069	-	466,069
Others	-	-	15,500	15,500
Charges for Service:				
Trunkline Maintenance	-	-	2,014,613	2,014,613
Salvage sales	-	-	5,493	5,493
Other	-	-	48,816	48,816
Interest and Rents	-	20,548	203,532	224,080
Other:				
Reimbursements	-	-	28,574	28,574
Gain on Equipment Disposal(s)	-	-	35,538	35,538
Total Operating Revenue	<u>\$ 4,658,880</u>	<u>\$ 3,356,497</u>	<u>\$ 2,370,276</u>	<u>\$ 10,385,653</u>

Marquette County Road Commission
Analysis of Expenditures
For the Year Ended September 30, 2006

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Primary Roads:				
Preservation	\$ 909,449	\$ -	\$ -	\$ 909,449
Maintenance	2,214,303	-	-	2,214,303
Local Roads:				
Preservation	-	1,116,173	-	1,116,173
Maintenance	-	2,549,989	-	2,549,989
Primary Roads Structures:				
Preservation	158,402	-	-	158,402
Local Roads Structures:				
Preservation	-	262,044	-	262,044
State Trunkline Maintenance	-	-	2,014,613	2,014,613
Equipment Expense - Net	113,182	260,648	175,596	549,426
Administrative Expense - Net	160,771	192,417	-	353,188
Capital Outlay - Net	-	-	(425,004)	(425,004)
Other	-	-	32,450	32,450
Debt Service				
Principle Payment	-	-	269,552	269,552
Interest Expense	-	-	49,483	49,483
TOTAL EXPENDITURES	\$ 3,556,107	\$ 4,381,271	\$ 2,116,690	\$ 10,054,068

Compliance Section



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of County Road Commissioners
Marquette County Road Commission
1610 North 2nd Street
Ishpeming, MI 49849

We have audited the accompanying financial statements of the governmental activities and Major Fund of the Marquette County Road Commission, a component unit of the County of Marquette, Michigan as of and for the year ended September 30, 2006, which collectively comprise the Marquette County Road Commission's basic financial statements and have issued our report thereon dated February 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Marquette County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in the amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Marquette County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, the board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants

February 23, 2007